

STATE OF MAINE
PUBLIC UTILITIES COMMISSION

Docket No. 2003-104

May 1, 2003

NORTHERN UTILITIES, INC.,
Proposed Cost of Gas Factor
for May 2003 - October 2003

**CORRECTED
ORDER**

WELCH, Chairman; NUGENT and DIAMOND, Commissioners

I. SUMMARY

We approve Northern Utilities, Inc.'s (Northern) proposed Cost of Gas Factor (CGF) for the 2003 Summer. We also approve an Environmental Response Cost Adjustment (ERCA) of \$0.0063 per Ccf. In addition, we approve the recovery of \$473,377 of gas costs under-collected during the 2002-2003 winter period, as discussed further in this order.

II. PROCEDURAL HISTORY

On February 14, 2003, pursuant to 35-A M.R.S.A. § 4703 and Chapter 430(2) of the Commission's Rules, Northern filed its proposed CGF for the Summer 2003 gas usage period. Northern also proposed a change in the Environmental Recovery Cost (ERC) rate in accordance with the settlement approved in Docket No. 96-678. The Commission issued a Notice of Proceeding to intervenors in prior CGF cases and by publication in newspapers of general circulation in Northern's service area.

The Office of the Public Advocate (OPA) intervened. To investigate the proposed CGF changes, the Advisory Staff issued data requests to the Company on its filing. A preliminary hearing was held on March 27, 2003, at which the Advisory Staff and the parties explored the issues raised by this filing. As directed by the Commission in its March 14, 2003 Order Approving Mid-Course Correction, Docket No. 2002-483, Northern brought forth a proposal to recover, during the Summer 2003 period, a portion of the under-collection accumulated during the 2002-2003 winter period.

At the March 27, 2003 technical conference, Northern indicated that it would make a revised CGF filing to incorporate an updated forecast of Summer period commodity costs and a revision to its Summer 2002 period reconciliation to correct the fact that, through oversight, it had not included a portion of costs incurred for transportation in the Summer period filing.

On April 1, 2003, the parties held an additional technical conference to further evaluate Northern's proposal to collect a portion of the previous winter's under-collection during the Summer period.

On April 18, 2003, Northern filed its cost of gas update to reflect the latest commodity costs, the corrected Summer 2002 reconciliation and a refund from PNGTS. In addition, the revised tariff sheet includes a line item for the Winter 2002-2003 Under-Collection surcharge, as agreed upon by the parties in the April 1, 2003 technical conference.

III. RECORD

The record in this proceeding includes all filings, data responses, transcripts, and any other materials provided in this proceeding.

IV. DISCUSSION

A. Overview of Proposed Rates

Northern proposes the following 2003 Summer Period CGF rates on a per hundred cubic feet (Ccf) basis as updated in its April 18, 2003 filing to become effective May 1, 2003:

Class	Rate	% Average Bill Change from Summer 2002
Residential - Heat (R-2)	\$0.9485	31.6
Residential - Non-Heat (R-1)	0.9062	27.6
Small Commercial - Low Winter Use (G-50)	0.8461	25.1
Small Commercial - High Winter Use (G-40)	0.9815	23.2
Medium Commercial - Low Winter Use (G-51)	0.8514	31.2
Medium Commercial - High Winter Use (G-41)	0.9645	37.9
Large Commercial/Industrial - Low Winter Use (G-52)	0.8776	29.8
Large Commercial/Industrial - High Winter Use (G-42)	0.9763	36.8

The February 15, 2003 filing proposed a revised ERC rate of \$0.0063 per ccf. The revised rate is calculated to reflect the difference between the estimated and actual ERCA recoveries made during the winter period and is made in accordance with the settlement in Docket No. 96-678.

Finally, the revised tariff filed on April 14, 2003, includes the collection of a portion of the Winter 2002-2003 under-collection as a surcharge.

The issues related to these proposed rates are discussed separately below.

B. Issues

1. Last Summer Period Under-collection

Maine law allows for the recovery of prior period cost of gas under-collections, with interest, during the next corresponding seasonal period. 35-A M.R.S.A. § 4703 and Chapter 430 of the MPUC Rules. In its updated filing, Northern reported an under-collection from the last Summer period of approximately \$712,524. This was due to an \$810,302 under-collection of demand costs and a \$97,778 over-collection of commodity costs.¹ Northern's filing indicates that this under-collection results from less-than-forecasted gas sales from Summer 2002 netted against a slight decrease in gas costs. Northern's proposed recovery of the Summer 2002 under-collection increases the proposed Summer 2003 period cost of gas by approximately \$0.0708 per Ccf for all customer classes.

These adjustments are related to changes in market price or sales volumes, resulting largely from the effects of weather and market forces. Barring a finding of imprudence in sales forecasting or gas procurement actions, such costs are generally allowed in rates. Because we have found no evidence of imprudence related to these changes in gas costs, we allow them in the Summer 2003 period CGF.

2. ERCA Adjustment

As allowed in Docket No. 96-786, Northern has adjusted its ERCA rate for the Summer period in an effort to achieve collections of monies spent on environmental remediation that are recoverable in this year's 12-month ERCA recovery period. It has done so by calculating the amount of allowed but uncollected ERCA revenue to date (for this year) and dividing that by the anticipated sales volumes for the Summer period. We have checked Northern's calculations, find them in compliance with our Order in Docket No. 96-786 and approve the adjustment.

3. Winter 2002-2003 Under-Collection

In early 2003, the price of natural gas rose dramatically over the prices projected at the time Northern calculated its Winter 2002-2003 cost of gas rates. For example, the NYMEX futures prices for March and April used to set Northern's rates, on average, doubled since October. In addition, an extreme price spike occurred in the gas market in February. As a result, Northern's gas costs for the winter season increased significantly and the Company projected an under-collection of approximately \$2.5 million for the winter period if rates remained at the level effective November 1, 2002. In order to

¹ The under-collection included in the update is greater than the amount included in the original filing because, while reviewing the calculation, Northern determined that it had not included transportation costs that should be recovered in the summer period. The revision corrects this error.

mitigate the accumulated under-collection to be collected in future periods and to send the appropriate price signals to Northern's customers, the Commission allowed Northern to put into effect a Mid-Course Adjustment effective March 15, 2003. See *Northern Utilities, Inc. – Maine, Proposed Cost of Gas Factor (November 2002 through April 2003)*, Docket No. 2002-483, Order (March 14, 2003) (Mid-Course Order). In that Order, the Commission stated:

Regarding the remaining under-collection, our policy has been to recover winter period under-collections in the next winter period, avoiding overlaps in Summer and winter season rates where possible. However, we may determine, based on the circumstances, that variance from this policy is warranted if it will assist in a smoother recovery or serves other beneficial purpose. Given the magnitude of the under-collection coupled with the fact that predictions indicate that the cost of the gas commodity will remain high for the next two cost of gas periods, we feel it is appropriate to consider alternative recovery proposals, including the possibility of collecting some part of this under-collection over the Summer 2003 period. We direct Northern to prepare a proposal for recovery of the Winter 2002-2003 under-collection for discussion in the next few weeks so that adjustments can be made in its pending Summer 2003 filing for summer period recovery if necessary.

In accordance with that directive, Northern initially proposed to add a surcharge to its Summer 2003 CGF rates of \$0.1220. This proposed surcharge would keep Northern's residential customers' per unit rate the same as the rate approved in the Mid-Course Order. The same surcharge would be added to each customer class's rates and the rates for all classes would be similar to those rates being paid at the end of the winter 2002-2003 period. By adding this surcharge, Northern hoped to collect \$1.2 million of an estimated \$3 million under-collection. Northern also proposed that the \$1.2 million become a "summer cost" for record keeping purposes. This would mean that any under- or over- collections would be included in the reconciliation of the Summer 2003 costs.

After further review, Northern indicated that there was an error in its calculation. Its corrected estimated under-collection for the Winter 2002-2003 period is approximately \$1.9 million.²

²At this time, Northern has actual figures for October through February and has estimated the under-collections for March and April. Any differences in these figures, would be reflected in the amount of under-collection to be recovered during the Winter 2003-2004 period.

Although it is not typical, the parties agreed that it was appropriate to include a portion of the winter 2002-2003 under-collection in this Summer period. The reasons for this are two-fold. First, there is every indication that the cost of gas for the upcoming winter periods will remain high and, therefore, the cost of gas rates before including any under-collection will be higher than last winter. By allowing recovery of a portion of the under-collection in the Summer period, the level of rate increase necessary next winter will hopefully be reduced. Second, the parties concluded that customers receiving service in the winter period and responsible for a portion of the under-collection are still likely to be customers of Northern who, with use of an agreed-upon method of calculating the surcharge, would bear an appropriate portion of the under-collection.

The main concern with the recovery of winter costs in the Summer period is that the low use customers, in fact, would subsidizing the high use customers, because they would be required to pay more of the under-collection than they would if recovered in the following winter period. At the technical conferences, the parties explored potential ways to reduce this subsidy and ultimately agreed upon to use a method that would allocate the surcharge to classes in an equitable manner.

First, per ccf rate for the under-collection to be allocated to the Summer period was calculated by taking the total estimated under-collection (\$1,900,000) and dividing it by Northern's annual sales forecast (40,398,462 ccf). This per ccf rate (\$0.0470) was then applied to the estimated Summer 2003 sales (10,065,112 ccf) to get the amount of Winter 2002-2003 under-collection (\$473,377) to be recovered in the Summer 2003. Next, the parties determined that to minimize inter-class subsidization, the \$473,377 under-collection would be allocated to each class based upon the class's usage during the winter 2002-2003 period to minimize inter-class subsidization. In this instance, the Residential Heating class was responsible for approximately 25.25% of the winter usage and therefore, 25.25% of the \$473,377 or \$119,520 would be recovered from that class during the Summer 2003.³ The parties concur that the \$473,377 be considered a summer cost for the purpose of calculating future reconciliations.

The remaining winter 2002-2003 period under-collection will be recovered using the normal reconciliation process of applying the same rate to each customer class for the Winter 2003-2004 period. Because customer class usage from winter period to winter period does not fluctuate greatly, inter-class subsidization is not a concern.⁴

³ See Attachment 1 for a comparison of winter usage percentages to estimated summer 2003 usages by class.

⁴ We have addressed today the issue of possible recovery during the Summer 2003 period of portions of sizeable LDC Winter 2002-2003 cost of gas revenue under-collections in both Docket 2003-104, *Northern Utilities, Inc. Proposed Cost of Gas Factor for May 2003 - October 2003* and Docket No. 2003-111, *Bangor Gas, LLC, Proposed Cost of Gas Adjustment*. We have come to somewhat different conclusions regarding

4. PNGTS Refund

In its updated filing, Northern reflected the pipeline refund it received from Portland Natural Gas Transmission Systems (PNGTS) on March 24, 2003. The refund returns to Northern the difference in the billed reservation charges from PNGTS at its filed rates for April 2002 through June 2002 and at interim rates from July 2002 through February 28, 2003, versus the FERC approved reservations charges that were made retroactive to April 2002. Northern will return the refund over a 12-month period consistent with the approved methodology for returning refunds to its customers.

FERC allows utilities to place rates into effect subject to refund and therefore, during the 2002-2003 Winter period while settlement negotiations were underway, PNGTS charged shippers its higher proposed rates. Once FERC approves final rates, pipelines calculate the difference between the approved rate and the billed rate and refund that amount plus interest to its customers. Northern calculated the rates for the Winter 2002-2003 period using its best estimate of anticipated negotiated rates based upon the progress of the settlement talks between PNGTS and the parties to its FERC case. This allowed Northern's customers to reap the benefits of the anticipated PNGTS rate reduction during the Winter 2002-2003 period before the FERC had made the settlement rate effective. Northern continued to pay the bills received from PNGTS as it was obligated to do under the governing higher tariffed rates. Because Northern billed customers less than actual cost during the 2002-2003 Winter period in anticipation of the PNGTS refund, Northern under-collected its PNGTS costs during Winter 2002-2003.

Alternatively, Northern could have netted the anticipated refund against the costs incurred in each month throughout the 2002-2003 Winter period. This would have had the effect of reducing the under-collection on its books at the end of the Winter period. If Northern had followed this accounting, it would not have had to return the PNGTS refund through the normal supplier refund mechanism, because it would already have been reflected through a reduced Winter 2002-2003 under-collection. In either case, ratepayers receive the full benefit of the PNGTS settlement. Staff discussed this with the parties and concluded that Northern's ratepayers will receive the full effect of the reduced

what an appropriate recovery period is in each of these cases, as did the parties who arrived at the recommendations contained in the Proposed Order in each case. We allow Northern to collect a portion of its 2002-2003 Winter period under-collection during the Summer 2003 period because it has distinct customer classes for high and low winter use customers. By applying the recovery responsibility proportionally, any subsidization between low and high winter usage customers is reduced. On the other hand, we approve recovery for Bangor Gas's Winter 2002-2003 period under-collection over two winter periods beginning in November 2003 because Bangor Gas does not have separate rate classes that allow allocation of cost responsibility consistent with seasonal usage. We feel it is better policy to avoid creating a circumstance in which lower use customers would pay more of the under-collection than their usage pattern would support.

PNGTS costs using either method and therefore, do not object to Northern's proposal. The OPA also indicated that it did not object to this methodology for the PNGTS refund. Therefore, we approve the return of the PNGTS refund utilizing the methods used for all supplier refunds.

V. CONCLUSION

A combination of increases in projected gas prices and an under-collection in the prior Summer period results in Summer 2003 CGF rates as stated above. Our Advisory Staff has reviewed the underlying reasons for these proposed rates and recommends their approval. Thus, we approve the current proposed rates.

In addition, for the reasons stated above, we allow Northern to add a surcharge to its tariff for the Summer 2003 CGF period that would allow it to collect a portion of the winter 2002-2003 under-collection in the upcoming Summer period. We note that this is not our normal practice but find it to be reasonable under the unusual circumstances of sharply higher natural gas prices in the winter 2002-2003 period.

Accordingly, we

ORDER

1. That Northern Utilities, Inc.'s proposed revised CGF rates are approved for effect for gas consumed on or after May 1, 2003;
2. That Northern Utilities, Inc.'s recovery of a portion of the winter 2002-2003 CGF period under-collection as discussed in the body of this order and delineated as a surcharge on the rate schedule is approved;
3. That Northern Utilities, Inc.'s Forty-second Revised Sheet No. 20.1 constituting its Cost of Gas Factor for the period May 1, 2003, through October 31, 2003, filed on April 23, 2003, is approved; and
4. That Northern Utilities, Inc.'s Twelfth Revised Sheet No. 34.3, the Environmental Response Cost Adjustment rate schedule filed on February 14, 2003, is approved and will become effective May 1, 2003.

Dated at Augusta, Maine, this 1st day of May, 2003.

BY ORDER OF THE COMMISSION

Dennis L. Keschl
Administrative Director

COMMISSIONERS VOTING FOR: Welch

Nugent

Diamond

NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.
2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within **21 days** of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Appellate Procedure.
3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

Note: The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.

Attachment 1

Rate Schedule	Description	Winter 2002-2003 % of Use	Summer 2003 % of Use
R-1	Residential Non-Heating	1.24%	3.7%
R-2	Residential Heating	25.25%	20.5%
G-40	Commercial and Industrial Service (C&I) Low Annual Use, High Peak Period Use	28.17%	18.3%
G-41	C&I Service, Medium Annual Use, High Peak Period Use	29.55	23.2%
G-42	C&I Service, High Annual Use, High Peak Period Use	2.69%	4.5%
G-50	C&I Service, Low Annual Use, Low Peak Period Use	3.46%	8.0%
G-51	C&I Service, Medium Annual Use, Low Peak Period Use	6.27%	12.7%
G-52	C&I Service, High Annual Use, Low Peak Period Use	3.38	9.2%